

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY, CALIFORNIA
AND RECORD OF ACTION**

March 15, 2005

FROM: **MARK UFFER**, County Administrative Officer
County Administrative Office

SUBJECT: **POLICY DIRECTION ON 2005-06 BUDGET TARGETS**

RECOMMENDATIONS:

1. Review the financing and policy issues identified in this report, including the spending and revenue projections used to develop the 2005-06 proposed budget financing plan, and the County Administrative Officer recommendations in developing budget targets.
2. Direct the County Administrative Officer to build departmental budget targets for the 2005-06 proposed budget based on the data and conclusions in this report, as modified by further Board action.

BACKGROUND INFORMATION: This report is the initial step towards development of the 2005-06 final budget. This report will be used as the basis for the development of budget targets to be issued to county departments. It describes how the county is financing the 2005-06 budget targets and how much available financing remains to address known issues, such as the upcoming salary negotiations, any state and federal impacts, and new judgeships.

Components of the financing plan included in this report are:

- Analysis of the 2005-06 financing plan:
 - 1) Financing Available for 2005-06
 - 2) Cost to Maintain Current Services in 2005-06
- Items not addressed in the 2005-06 financing plan
- Review of county financing policies, county reserves and ongoing set asides
- Conclusion

ANALYSIS OF THE 2005-06 FINANCING PLAN

Projections for additional financing available for next year's budget include \$53.9 million in ongoing funding sources and includes \$102.7 million in one-time sources as summarized on the chart below:

FINANCING AVAILABLE FOR 2005-06

	(In Millions)	
	Ongoing	One-time
Beginning Financial Position	6.3	47.6
New Ongoing Discretionary Revenue	37.8	
New Ongoing Prop 172 Revenue	9.8	
Estimated Additional One-time Money		55.1
Total Financing Available	53.9	102.7

Record of Action of the Board of Supervisors

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 2

BEGINNING FINANCIAL POSITION

When building the previous year's budget, the Board of Supervisors left a significant amount of ongoing and one-time sources unallocated in order to finance future funding issues. In addition, county revenue, primarily property tax and Prop 172 sales tax, is exceeding the 2004-05 modified budget resulting in additional unallocated financing. The Board has authorized the use of a portion of these unallocated sources in the current budget year. Currently, the remaining unallocated balances are \$6.3 million in ongoing sources and \$47.6 million in one-time sources. This money is available to be used in 2005-06.

NEW ONGOING DISCRETIONARY REVENUE

New ongoing discretionary revenue is outlined in the chart below. The growth from current year-end estimates in discretionary countywide revenues is estimated to be \$37.8 million and is based on the following.

	(In Millions) Ongoing
Property Tax	33.4
Interest	2.5
Sales Tax	0.8
Other	1.1
Total New Ongoing Discretionary Financing	37.8

Property tax revenue is expected to increase by \$11.4 million over current year-end estimates based on an assessed valuation growth of 9.1%, per a local economist. The shift of VLF revenues to property tax revenue is estimated to increase property tax revenues by an additional \$22.0 million, which includes the 9.1% growth factor.

Interest is expected to increase by \$2.5 million, primarily due to increased returns on the County pool.

Sales tax revenues are expected to grow 6.8% over the current year-end estimates. This is based on input from local economists. This amount has been decreased slightly for potential revenue losses due to annexations.

Other revenues are expected to increase by \$1.1 million; \$0.3 million of this increase is in Property Tax Administration fees, which rises with property tax revenues. In addition, Franchise Fees and Tobacco Settlement Proceeds are expected to increase slightly.

NEW ONGOING PROP 172 REVENUE

Proposition 172 (Prop 172), which became effective January 1, 1994, created a permanent half-cent sales tax to provide funding resources to qualifying public safety services. Prop 172 revenue received by the county is allocated per a formula determined by the Board of Supervisors. These current allocations are as follows: 70% Sheriff, 17.5% District Attorney, and 12.5% Probation. Each year Prop 172 is forecasted for the subsequent year using current year receipts, which has a two-month lag, and local economist predictions. Forecasted amounts are included in the applicable departmental budgets.

In 2004-05 the total amount of Proposition 172 sales tax originally budgeted was \$113.0 million. Based on the actual amount of Prop 172 revenue received for 2003-04, Prop 172 ongoing revenue budget for 2004-05 was modified from \$113.0 million to \$116.8 million. This represents an increase of \$3.8 million. Of this amount, the Board approved the use of \$3.3 million in the current year. The remaining \$0.5 million is included in the ongoing beginning financial position mentioned above.

The current 2004-05 revenue estimate for Proposition 172 revenue is \$120.1 million, which is \$3.3 million above the modified budget amount and is included in the ongoing beginning financial position mentioned

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 3

above. Estimated growth of 8.2% in 2005-06 translates into an additional \$9.8 million available to assist in financing the 2005-06 increased costs for the three departments mentioned above.

ESTIMATED ADDITIONAL ONE-TIME MONEY

The chart below summarizes estimated additional one-time money, totaling \$55.1 million, which will be available for the 2005-06 budget.

	(In Millions) One-time
Contingencies Per County Policy/Set Asides Not Used in 2004-05	23.3
Departmental Operation Savings in 2004-05	13.4
Additional Countywide Discretionary Revenue Not Used in 2004-05	8.6
Additional Ongoing Prop 172 Revenue Not Used in 2004-05	3.8
Additional Tobacco Settlement Revenue Not Used in 2004-05	0.3
Solid Waste Transfers	5.0
Use of Equity Pool Reserve	0.7
One-Time Money Available for 2005-06	55.1

Analysis of the 2004-05 contingencies budget results in projections that the 1.5% contingency set-aside required by County policy will remain unspent at the end of the fiscal year, and that the ongoing contingencies set asides for retirement, future financing and workload adjustments will also remain unspent at the end of the fiscal year, resulting in \$23.3 million in one-time money available for 2005-06.

Estimated departmental operation savings in 2004-05 of \$13.4 million will also be available for one-time expenses in 2005-06.

In addition, in the current year, there are a variety of revenue sources that are expected to exceed modified budget. Those revenue sources are the countywide discretionary revenue, Prop 172 revenue, and Tobacco Settlement Revenue. This unexpected increase in revenue totaling \$12.7 million is available for one-time expenses in 2005-06 and these revised revenue estimates have been factored in when building next year's budget.

The Solid Waste Enterprise fund has been making an annual payment of \$5.0 million to the general fund since 1995. This payment serves as a reimbursement for the value of certain landfill properties acquired by the county prior to 1983, when the Solid Waste Enterprise fund was established. The Board of Supervisors approved this reimbursement on October 31, 1995. In 2005-06 the County will receive the last reimbursement of \$5.0 million.

The use of \$0.7 million of the Equity Pool Reserve is to offset approved equity adjustments.

COST TO MAINTAIN CURRENT SERVICES IN 2005-06

The prior sections of this report addressed the financing available for 2005-06. This section will address increased costs in 2005-06 to maintain current services. The chart below summarizes the adjustments to prior year's budget that are included in the financing plan for both one-time and ongoing costs. Following the chart is a brief description of each cost component.

	(In Millions)
Safety MOU Increase in 2005-06	2.3
Retirement Rate Adjustments	6.6
Workers' Comp and Other Insurance Costs	6.1
Adult Detention Expansion - Adelanto Facility	11.2
High Desert Juvenile Detention Center	3.7
Probation Savings in Placements to California Youth Authority	(2.0)
Prop 172 Available – District Attorney	1.5
State Mandated Human Services System Costs	4.0
Central Computer	0.6
Inflation	1.5
County Fire MOU Increase in 2005-06	0.2
Other Unavoidable Costs	<u>1.4</u>
Ongoing Costs Subtotal	37.1
Financing to Other Funds	4.0
Contribution to Specific Reserves:	
Contribution to Retirement Reserve	7.9
Contribution to Future Financing Reserve	7.0
Contribution to Workload Adjustment Reserve	2.7
Contribution to Restitution Reserve	0.1
Maintain Contingencies per Board Policy	6.1
Contribution to General Purpose Reserve per Board Policy	<u>3.3</u>
One-Time Costs Subtotal	31.1
Total Increased Costs	68.2

Safety MOU Increase in 2005-06 - \$2.3 million

The county is in the third year of a three-year agreement with employees in the safety and safety management units. These units' MOU calls for a 4.5% salary adjustment effective November 26, 2005. While there is no increase in their flexible benefit plan dollars, there are increases to the health and dental plan subsidies provided to employees. The net local cost associated with these previously negotiated salary and benefit adjustments is \$2.3 million.

NOTE: The Memorandum of Understanding between the county and the following representations units: general, attorney, specialized peace officers and nurses has or will expire prior to the new fiscal year. Exempt employees compensation plan has also expired. Any increase in cost in 2005-06 for employees in these groups is not known at this time, and no provision for these costs are included in this financing plan.

Retirement Rate Adjustments - \$6.6 million

Employer retirement contribution rates are comprised of two rates, which are stated as a percentage of earnable compensation: the rate set actuarially by the San Bernardino County Employees Retirement Association (SBCERA) and the rate set by the County to cover payment of the existing pension obligation bonds (POB). In 2005-06, the SBCERA rate for general employees increases 2.44% and the POB rate increases 1.30% for a net increase of 3.74%. The SBCERA rate for safety employees increases 5.83% and the POB rate increases 0.76% for a net increase of 6.59%. As a consequence, general employee

**BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS**

March 15, 2005

Page 5

local cost will increase \$4.5 million and safety employee local cost will increase \$2.1 million for a total local cost increase of \$6.6 million.

Workers' Comp and Other Insurance Costs - \$6.1 million

On June 30, 2004, the workers' compensation sub fund deficit was \$12.5 million. The expected positive sub fund balance at June 30, 2005 is \$4.8 million. In 2005-06 an increase to Workers' Compensation premiums is required to reach the 70% marginally acceptable confidence level (estimated at \$112.0 million) by June 30, 2008. The resulting net local cost for the workers compensation premium increase is \$7.2 million, which includes the use of \$4.0 million approved by the Board on November 2, 2004. Other insurance costs, which include property, liability, and surety decreased by \$1.1 million in local funding requirements in accordance with risk management's five-year recovery plan.

Adult Detention Expansion – Adelanto Facility – \$11.2 million

The approved lease of the Victor Valley Correctional Facility (Maranatha), scheduled for occupancy beginning October 15, 2005, will require additional funding to the Sheriff's Department, Facilities Management Department and Department of Behavioral Health (DBH) for operational costs. The resulting 2005-06 funding requirement for this project is pro-rated at \$11,216,048, of which \$10,753,571 is allocated to the Sheriff's Department. Annual (full-year) local cost is projected at \$16,082,894 in 2006-07, based on the use of realignment to offset behavioral health costs, and offsetting revenue from 200 federal inmates. Federal inmate population is projected to be at 300 during Year 1, declines to 200 in Year 2, and ultimately remains at 100 in Year 3 and beyond.

Projected operating expenses include \$10,278,997 in salaries and benefits associated with 158.4 FTE in the Sheriff's Department, of which 55.0 Deputies, 1.0 Captain, and 1.0 Automated Systems Analyst are budgeted at full-year costs due to advance training and planning requirements. All other safety and general positions come on line two weeks in advance of opening and are pro-rated based on the October 2005 opening. Other pro-rated expenses include services and supplies in the amount of \$2,256,895; lease payments totaling \$2,845,629; and property tax and insurance payments of \$153,750, to reimburse the landlord. Revenue from federal prisoner housing, in the amount of \$4,781,700, is expected to offset Sheriff's Department costs in 2005-06.

Additional prorated costs include \$462,477 in estimated utility payments from Facilities Management and \$217,133 for 2.4 FTE plus services and supplies in the Department of Behavioral Health. All DBH costs are offset with realignment revenue.

High Desert Juvenile Detention Center - \$3.7 million

The High Desert Juvenile Detention Center opened in September 2004 with 40 beds. New local cost at that time provided for 15 new positions, services and supplies, and facility management charges. The Department transferred the balance of staffing from other juvenile facilities and identified a youth profile that kept staffing requirements to a minimum.

By contract the County is obligated to occupy 100 beds by December 2005. Increased local cost funding required for this obligation is \$3,689,542. This provides funding for 54 new positions, including a clinic assistant, clinical therapists, licensed vocational nurses, and a supervising nurse that were previously not required, as well as additional probation corrections officers, food service workers, clerks and institutional nurses, plus services and supplies. In addition, the Department will relocate one 20-bed unit, with corresponding staff, from Central Juvenile Hall to the High Desert Juvenile Detention Center.

Bookings in the high desert have increased by 58% from 70 juvenile arrests in October 2004 to 111 in January 2005. Currently these youth are transported to Central Juvenile Hall.

There are no other contractual obligations with the Board of Corrections beyond December 2005. Future increases in cost would be based on the need for additional juvenile beds.

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 6

Probation Savings in Placements to California Youth Authority - \$2.0 million savings

San Bernardino County placements at California Youth Authority have declined continuously for the past few years, reaching a new low in 2004-05. Significant reductions in the most costly placement categories have dramatically reduced costs. As a result, local cost is reduced by \$2.0 million in the Probation budget.

Prop 172 Available – District Attorney - \$1.5 million

The District Attorney is allotted 17.5% of all Prop 172 revenue received; this translates to a proposed budgeted amount of \$22,732,500 for 2005-06. Of the proposed budgeted amount, \$2,957,500 represents the increase over the 2004-05 final budget allocation. Approximately one half of this amount will be used to fund increased retirement and workers compensation costs.

Of the remaining amount available to the District Attorney (approximately \$1.5 million), the majority will be set aside for anticipated MOU costs. Any residual funds will be used to augment the department's service and supplies budget, including training costs and replacing outdated safety equipment.

State Mandated Human Services System Costs -\$4.0 million

Projected caseload increases in the In Home Supportive Services, Foster Care, and other social services programs will result in additional state mandated costs to the county. These state mandated costs are paid for with a combination of realignment funds and general fund financing. In the past, the County has tried to use realignment funding whenever possible before using general fund financing. Unfortunately, growth in program costs have been far exceeding the revenue growth in realignment, causing the realignment accounts to be drawn down at a rapid pace. In 2005-06, the County Administrative Office is recommending an increase in general fund financing allocated to these programs, thus reducing reliance on the realignment revenues. This would be part of a phased in approach designed to prevent a large single year local cost impact, which would occur if we do not reduce reliance on the realignment accounts prior to their depletion.

Central Computer - \$0.6 million

Rates in 2005-06 have been increased to finance the cost to maintain current services including the increased costs in retirement, workers comp, and inflation as well as to finance two positions needed to accommodate the significant growth in shared server hosting over the past few years.

Inflation - \$1.5 million

A general inflation rate of 2.0% was used in the development of the 2005-06 budget. Inflation-related increased costs of goods and services based on this rate are projected to require an additional \$1.2 million in local funding. In addition, there is approximately \$0.3 million in local cost increases in the Utilities budget due to projected utility rate increases.

County Fire MOU Increase in 2005-06 - \$0.2 million

County Fire is in the last year of its MOU. This MOU calls for a 2.0% salary increase in October 2005. In addition, funding is needed for inflationary increases in the Office of Emergency Services. The general fund subsidy will increase by \$0.2 million to cover these costs.

Other Unavoidable Costs - \$1.4 million

The increase in other unavoidable costs is \$1.4 million. The two major costs in this category are 1) the allocation of \$500,000 to Facilities Management to better position the County in maintaining facilities in an appropriate manner and to bring the County closer to industry standards and 2) the allocation of approximately \$500,000 to meet the mandate of collecting DNA samples per Proposition 69.

Financing to Other Funds - \$4.0 million

Capital Improvements - As part of the financing plan, \$3.5 million has been allocated to the Capital Improvement Program. However, based on the 2005-06 proposed projects listing, an additional \$4.4 million would assist the County in financing required maintenance and repairs. The County Administrative Office will seek direction from the Board of Supervisors on these costs during the budget process.

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 7

General Plan Update - The county general fund has been contributing money to finance a portion of the general plan update. To date \$4.5 million has been allocated for this purpose. The last planned contribution will be \$0.5 million in 2005-06.

Contributions to Specific Reserves - \$17.7 million

The Board of Supervisors approved ongoing set asides totaling \$17.6 million for specific purposes discussed later in this agenda item. The County Administrative Office is recommending to place any unspent money from these set asides in a one-time reserve for the same purpose so there is sufficient funding in both one-time and ongoing sources. In addition, the County received \$100,000 in 2004-05 from the corruption lawsuit settlement that will be placed in the restitution reserve.

Contingencies - \$6.1 million/Contribution to General Purpose Reserve - \$3.3 million

These funding recommendations are based on established county policy discussed later in this agenda item.

ISSUES NOT ADDRESSED IN THE 2005-06 FINANCING PLAN

In developing the financing plan, \$68.2 million of the financing available for 2005-06 has been allocated to maintain current services. The remaining financing available is accessible to address policy and program needs that are not identified nor funded in the financing plan, including:

- Salary Negotiations (except Safety)
- State & Federal Budget Changes (discussed in more detail below)
- New Judgeships

Also not included in the plan at this time are the following potential financing sources:

- Use of Ongoing Set Asides
- Use of Specific Reserves

STATE AND FEDERAL BUDGET OUTLOOK

Recognizing that the state and federal budget process is still in its early stages, San Bernardino County's preliminary financing plan for 2005-06 assumes no state or federal budget impacts. This year the county must pay close attention to both the state and federal budget due to their projected deficits. There are areas in the current proposed budgets that may impact the county and there are areas that the county may have exposure to if the current budgets are modified. Discussed below are these areas:

State Budget Impact

On January 10, 2005, the Governor's Proposed Budget for 2005-06 was announced. The County Administrative Office enlisted departments' assistance in identifying specific budget impacts. If the January 10th budget submitted by the governor is adopted, the total fiscal impact to the County of San Bernardino is expected to be \$40.3 million for 2005-06.

Continuation of State Cuts – Built in 2004-05 County Budget:	
Reduction in Discretionary Revenue	\$19.9 million
Reduction to RDA, Public Works and Special Districts	\$ 8.2 million
Reduced funding for Health and Human Services programs	\$12.1 million
Reduced funding to County Library	<u>\$ 0.1 million</u>
	\$40.3 million

The majority of the state budget impact is a continuation of the state's 2004-05 actual reduction to San Bernardino County. Therefore, the county has already factored this reduction in the current financing plan and no changes are required for 2005-06. The new reductions in Health and Human Services programs

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 8

and County Library is recommended to be absorbed within the particular department that receives those funds. This recommendation follows the same guidelines as grants received by departments.

Federal Budget Impact

On February 7, 2005, President Bush released his proposed \$2.6 trillion budget for 2005-06. This budget proposes the deepest cuts in Federal aid to state and local governments in over 20 years. The County Administrative Office enlisted departments' assistance in identifying specific budget impacts to the County of San Bernardino. Unfortunately, many of the proposed reductions do not provide enough detail to determine the extent of the impact to County of San Bernardino.

Key federal budget issues of interest to counties include:

- **Medicaid Funding:** The President is proposing \$60 billion in Medicaid cuts over 10 years, including curbing the use of intergovernmental transfers (IGTs) as non-Federal match funds and by limiting Medicaid reimbursement to government providers to no more than the cost of providing services. The County of San Bernardino currently receives \$150.4 million in Medicaid of which \$30 million is in IGTs. Any reduction to this funding source will significantly affect the Arrowhead Regional Medical Center.
- **Community Development Block Grant (CDBG) Funding:** Since 1975 the County has been receiving CDBG funding. As a part of the proposed budget, the administration has offered the "Strengthening America's Communities Initiative," a new program to be administered by states. The Administration's proposal would eliminate CDBG and 17 other economic development grant programs by consolidating them into two programs with a proposed funding level of \$3.71 billion. Although CDBG funding in 2005-06 may not be affected, the County can potentially lose over 50% of the \$9,000,000 received each year beginning in 2006-07. The loss of the CDBG funding to the County of San Bernardino would be significant. One of the ways the County uses CDBG funds is by leveraging local and private financing to assist in the revitalization of our neighborhoods.
- **Federal Aviation:** The President proposes reductions to Federal Aviation Administration (FAA) Airport Improvement Grants. Currently, the Airport Department receives approximately \$2.8 million from this program. The loss of this funding would stall several construction projects, many of which are intended to improve safety at the County airports.
- **State Criminal Alien Assistance Program (SCAAP):** The President proposes to eliminate funding for the SCAAP. Currently, the Sheriff's Department receives approximately \$0.5 million from this program.
- **State and Local Law Enforcement Assistance Programs:** The President proposes major funding cuts or elimination of several law enforcement programs. Currently, the Sheriff's Department and Probation Department receive approximately \$1.9 million and \$0.5 million, respectively from those affected programs.
- **Medicare Targeted Case Management (TCM) Funding:** The Federal Budget proposes to eliminate Medicare Targeted Case Management (TCM) funding for Public Guardian and Probation services. Since this has been expected since last Spring, the state and counties are trying to appeal this proposal. The annual amount for Public Guardian and Probation for TCM is running about \$200,000 and \$300,000, respectively.

County Administrative Office staff will continue to monitor the state and federal budgetary process. Legislative reactions to these proposals will provide further insight regarding the local impacts to San Bernardino County.

COUNTY FINANCING POLICIES

In 1998 the county adopted a formal budget financing policy and a reserve policy. The key elements of these policies are described below:

Budget Finance Policy

- One-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period.
- No less than one-third of one-time sources will be allocated to increasing reserves to the 10% target level as defined in the County's Reserve Policy.

Reserve Policy

- The county shall establish an ongoing general purpose reserve for the general fund targeted at 10% of locally funded appropriations.
- The county will maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting the county's operations, which could not have been reasonably anticipated at the time the budget was prepared. Funding shall be targeted at no less than 1.5% of locally funded appropriations.

The definition of locally funded appropriations is defined as those appropriations which are funded by discretionary, unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs.

For 2005-06, the locally funded appropriations are projected to be \$404.8 million. A general reserve requirement of 10% would be \$40.5 million and an appropriated contingency of 1.5% would require \$6.1 million.

The financing plan includes \$6.1 million in the county contingency budget and recommends a contribution of \$3.3 million to the general purpose reserves to satisfy the requirements of these policies.

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 10

COUNTY RESERVES

The county has several types of reserves. Some are for specific purposes, such as to meet future known obligations or to build a reserve for capital projects. The general reserves are funds held to protect the county from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. All of these reserves are one-time in nature and can only be used as a temporary fix. They are not viewed by staff as appropriate remedies for ongoing problems.

A listing of those reserves and the planned contributions are shown below:

	Estimated June 30, 2005 Balance	Recommended Contribution /(Use)	Estimated June 30, 2006 Balance
General Purpose Reserves	37,214,100	3,270,823	40,484,923
Specific Purpose Reserves			
Medical Center Debt Service	32,074,905		32,074,905
Teeter Reserve	19,260,087		19,260,087
Retirement Reserve	7,000,000	7,900,000	14,900,000
Future Financing Needs Reserve		7,000,000	7,000,000
Capital Projects Reserve	4,000,000		4,000,000
Equity Pool Reserve	4,140,404	(687,968)	3,452,436
Law & Justice SWBPI Reserve	3,405,626		3,405,626
Business Process Improv Reserve	3,000,000		3,000,000
Insurance Reserve	3,000,000		3,000,000
Workload Adjustments Reserve		2,700,000	2,700,000
Restitution Reserve	1,864,234	100,000	1,964,234
Bark Beetle Reserve	1,830,300		1,830,300
Justice Facilities Reserve	1,356,753		1,356,753
West Valley Maximum Security	1,492,986		1,492,986
Reserve for Museum Paleontology	1,733,750		1,733,750
Electronic Voting Reserve	500,000		500,000
Total Specific Purpose	84,659,045	17,012,032	101,671,077
Total Reserves	121,873,145	20,282,855	142,156,000

As demonstrated above, the new contribution of \$3.3 million would bring the total general purpose reserves to \$40.5 million.

The total specific purpose reserves has a net increase of \$17.0 million and is composed of the following: 1) placing a total of \$17.6 million of the unspent ongoing set asides for retirement, future financing needs and workload adjustments (discussed in more detail below) in the same purpose reserve, 2) the use of \$0.7 million from the Equity Pool Reserve and 3) the additional receipt of \$0.1 million related to the corruption lawsuit is deposited in the Restitution Reserve.

ONGOING SET ASIDES

As seen by the total reserves amount above, the county has set aside a significant amount of one-time money that can assist the county temporarily for unforeseen increases in expenditure or reductions in revenues. However, there has never been any money set aside to permanently address future foreseen increases in expenditures. Beginning in 2004-05, the county positioned itself to set aside ongoing revenue sources to finance future ongoing expenditures in three different areas: retirement, future financing needs, and workload adjustments.

BOARD OF SUPERVISORS
POLICY DIRECTION ON 2005-06 BUDGET TARGETS
March 15, 2005
Page 11

Retirement Ongoing Set Aside

For the past two years, the County has seen significant retirement cost increases and predicts additional future increases based on unfunded liabilities that have occurred primarily as a result of lower than expected market returns. The Board has set aside \$7.9 million in ongoing revenue sources to assist in financing these cost increases at a future date.

Future Financing Needs Ongoing Set Aside

The California Department of Finance estimates the population of the County of San Bernardino will grow 24.1% between the years 2000 to 2010. Because of this predicted population growth, the demand for services provided by our county will increase significantly. To plan ahead, the Board has set aside \$7.0 million of ongoing money to address the future needs of this growing population.

Workload Adjustments Ongoing Set Aside

For the past two or three years, the County of San Bernardino has reduced departmental budgets due to the state's financial situation and have seen non-general fund departments struggle with their financing availability. This has resulted in reduced staffing, which has affected departments' ability to provide services and in some cases created backlogs. The Board has set aside \$2.7 million to address departmental workload issues.

CONCLUSION

This report has identified \$53.9 million in ongoing financing available and \$102.7 million in one-time financing available for 2005-06. This report also recommends to use \$37.1 million in ongoing financing to fund increased costs to maintain current services and \$31.1 million in one-time financing to adhere to county policy, finance capital improvement projects and reserve unspent ongoing set asides. After financing these increased costs, the county is projected to have available discretionary ongoing revenues of \$16.8 million and available discretionary one-time revenues of \$71.6 million.

SUMMARY OF 2005-06 FINANCING PLAN

	(In Millions)	
	Ongoing	One-time
Financing available	53.9	102.7
Cost to Maintain Current Services	(37.1)	(31.1)
2005-06 County Surplus	16.8	71.6

However, there are still significant issues that have not yet been addressed in this 2005-06 financing plan since the exact impact is unknown. Therefore, the County Administrative Office will continue to monitor the salary negotiations, the state and federal budget process, the new judgeships awarded, mid-year board actions and any other pending costs the County must face in 2005-06. The County Administrative Office will also continue to refine our own estimates of ongoing and one-time revenues available for next fiscal year. A revised financing plan, if necessary, will be distributed to the Board of Supervisors prior to budget workshops.

REVIEWED AND APPROVED BY OTHERS: This item has been reviewed by County Counsel (Ruth Stringer, Assistant County Counsel, 387-5451) on February 23, 2005.

SUPERVISORIAL DISTRICT(S): All

PRESENTER: Mark Uffer, County Administrative Officer (387-5418)